



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240



NOV 17 1998

Financial Statement Guidance Memorandum 98-03

To: Bureau Finance Officers

From: R. Schuyler Leshner *R. Schuyler Leshner*
Deputy Chief Financial Officer

Subject: Recognition of Employee Pension and Post Retirement Benefit Expenses

The Office of Personnel Management (OPM) has issued a memorandum which provides rates for recording the estimated cost of pension and other future retirement benefits paid by OPM on behalf of federal agencies. Under Federal accounting standards, the cost of these benefits must be reflected on the financial statements of the agency that receives the benefit (i.e. the employer). This is accomplished by recording a debit to "Employee Benefit Expense" and a credit to "Imputed Financing Sources". According to the version of the government standard general ledger used by the majority of the Department in fiscal year 1998, these are Account 6400.G.24 and Account 578A.G.24, respectively.

The benefits covered by this memo are summarized below. See the OPM memorandum (Attachment A) for full details.

1. Pension Expense

This memo presents the full cost of the various retirement benefits applicable to agencies in fiscal year 1998. The rates presented by OPM do not take into account the payments already made by agencies under CSRS and FERS, since the memo assumes that agencies will compute the theoretical Total Pension Expense by multiplying total base pay by the given rates. This theoretical total would be reduced by the pension expense actually paid by the agency and the employee to compute the estimated imputed pension expense that must be recognized.

The problem with this approach is twofold. First, the total pension expense paid to OPM is not necessarily identifiable (in most cases, these amounts would be commingled with other employee benefit costs paid to OPM by the agency and the employee). Second, this approach causes the actual known figure for expense incurred to be replaced by an estimate.

For these reasons, we recommend that the imputed cost be computed by multiplying base salary by the net rate, specifically the gross rate presented by OPM less the portion paid by the bureau and the employee.

- a. FERS. By law, the FERS rate must be paid entirely by agencies and employees. OPM billed agencies and employees 11.5% during fiscal year 1998. The actual payments to OPM for FERS retirement costs represent the fiscal year 1998 expense, and no imputed cost is required for FERS employees.
- b. CSRS. The CSRS rates fall into several categories, specifically CSRS and CSRS Offset, and Law Enforcement and non-Law Enforcement. Each of these rates must be reduced by the amount that is partially paid by the agency and employee. These rates are summarized below.

	Gross Rate	Paid by Agency	Paid by Employee	Net Rate
CSRS	24.2%	7.0%	7.0%	10.2%
CSRS Law Enforcement	40.0%	7.5%	7.5%	25.0%
CSRS Offset	19.3%	7.0%	0.8%	11.5%
CSRS Offset Law Enforcement	36.2%	7.5%	1.3%	27.4%

A schedule presenting fiscal year 1998 base pay by bureau sorted by retirement type is attached (See attachment B). This schedule is based on salaries paid during fiscal year 1998, and accordingly ends with pay period 9823. These numbers are not adjusted for either the beginning-of-year or end-of-year cut-off, however, these timing differences will net such that the total should be sufficient for computing the estimate. The numbers to use are your Bureau's base salary amount multiplied by the net rate for each retirement plan.

2. **Other Retirement Benefits**

Federal retirees are entitled to benefits in addition to pensions, including health insurance and life insurance. The estimated cost of these benefits that will be provided to current employees in the future is a cost of doing business in the years in which those employees work.

- a. Federal Employee Health Benefits. The cost factor is \$2,529 per employee currently enrolled in the FEHB, based on the average number of employees for the year. Average employees per bureau, computed according to the guidance in the OPM memo is presented at Attachment C. (Note: The number of employees listed on the other schedules is informational, and includes all employees who

worked at any point during the year. The employees count on this schedule specifically includes only those enrolled in FEHB at the measurement dates.)

- b. Life Insurance. The cost factor is .02% of base pay during fiscal year 1998. The fiscal year 1998 base pay of employees enrolled in FEGLI is presented at Attachment D.

If you have any questions, please contact Donna McKethan on (202) 208-5224.

cc: Financial Statement Guidance Team
Charlotte Olson, Curtis Crider - OIG

Office of Personnel Management
Retirement and Insurance Service



1920



1954



1959



1986

Federal Employee Benefit Programs
FINANCIAL MANAGEMENT LETTER

Number: F-98-07

Date: October 19, 1998

Subject: 1998 Cost Factors for Pension and Other Retirement Benefits Expenses

As required by Statement of Federal Financial Standards No. 5 (SFFAS-5) -- *Liabilities of the Federal Government* -- we are providing you with the "costs factors" for the Federal civilian benefit programs. These factors will enable you to determine your "service costs" for pensions and other retirement benefits (ORB), as they relate to the Civil Service Retirement System (CSRS), Federal Employees Retirement System (FERS), Federal Employees Health Benefits Program (FEHB) and Federal Employees Group Life Insurance Program (FEGLI).

PENSIONS

CIVIL SERVICE RETIREMENT SYSTEM

Service Cost represents an estimate of the amount of funds which, if accumulated annually and invested over the careers of covered employees, will be enough to pay their future benefits. For most "regular" CSRS covered employees, the service cost is 24.2 percent of basic pay¹. Since this exceeds the 14 percent of basic pay that is contributed by and for covered employees, the CSRS is less than fully funded. Employing agencies must recognize the difference between the service cost and the contributions by and for their employees as an *imputed financing source*.

¹

See CSRS/FERS Handbook, Section 30A1.1-2 for definition of basic pay.

Attachment A presents the 1998 cost factors for all categories of CSRS coverage, expressed as a percentage of basic pay. Please note that the 1998 cost factor for "regular" coverage, under which the vast majority of employees are covered, is 24.2 percent of basic pay, the same as the 1997 factor.

FEDERAL EMPLOYEES RETIREMENT SYSTEM

Unlike the CSRS, FERS is a fully funded retirement plan. That is, the cost of FERS is financed completely by contributions made by and for covered employees. As a consequence, no imputed financing sources are necessary for FERS. The 1998 cost factors for FERS are presented as Attachment B.

CALCULATION OF IMPUTED FINANCING FOR PENSIONS

To determine the amount of imputed financing you must recognize for the CSRS and FERS, follow these steps:

1. Determine the basic pay of covered employees in each category of CSRS and FERS coverage.
2. Multiply the basic pay for each category of covered employee by the associated cost factor.
3. Compute the grand total of each of the individual calculations in step 2 for both CSRS and FERS -- this is your service cost.
4. Subtract, from the amount derived in step 3, the total contributions by and for all employees covered by CSRS and FERS. This is your imputed financing.

For your information, Attachment C is a comprehensive illustration provided by the Financial Management Service of the entries needed to record pension cost.

ILLUSTRATION: CALCULATION OF IMPUTED FINANCING FOR PENSIONS

Agency XYZ as "regular" CSRS employees, who earn total basic pay of \$500,000, and "regular" FERS employees, who earn basic pay of \$250,000.

Contributions by and for these employees during 1998 were \$106,300, computed as follows:

	A	B	C	D	E	F
	Annual Gross Basic Pay	Employee Withholding Rate (%)	Agency Contribution Rate (%)	Employee Deductions [A*B]	Employer Contributions [A*C]	Total Contributions [D+E]
CSRS	\$500,000	7.00	8.51	\$35,000	\$42,550	\$77,550
FERS	\$250,000	.80	10.7	\$2,000	\$26,750	\$28,750
TOTAL				\$37,000	\$69,300	\$106,300

After it receives the cost factors, the agency computes its imputed financing cost as \$43,450, as follows:

	A	B	C	D	E
	Annual Basic Pay	Cost Factor (%)	Service Cost [A*B]	Total Annual Contributions	Imputed Financing [C - D]
CSRS	\$500,000	24.2	\$121,000	\$77,550	\$43,450
FERS	\$250,000	11.5	\$28,750	\$28,750	\$0
TOTAL			\$149,750	\$106,300	\$43,450

OTHER RETIREMENT BENEFITS - HEALTH BENEFITS

We have computed the cost factor you need to determine your cost for postretirement health benefits. The cost factor for 1998 is *\$2,529 per employee enrolled* in the FEHB. Since neither your agency nor your employees make any contributions for postretirement health benefits, the *entire service cost must be recognized as an imputed cost*.

To determine your service cost, perform the following steps:

1. Determine enrollment in the FEHB at three points in time: October 1, 1997; March 31, 1998; and September 30, 1998.
2. Multiply the October 1, 1997 enrollment by one; the March 31, 1998 enrollment by two; and the September 30, 1998 enrollment by one.

3. Calculate the grand total of each of the individual computations in step 2.
4. Divide the total in Step 3 by four - this is your computed FEHB enrollment.
5. Multiply the computed FEHB enrollment by the FEHB cost factor - this is your *service cost*.

ILLUSTRATION: CALCULATION OF IMPUTED FINANCING FOR HEALTH BENEFITS

	10/1/97	3/31/98	9/30/98
Enrollment	70	66	60
Multiplier	1	2	1
Product	70	132	60
Total			262
Divide Total by 4 = COMPUTED ENROLLMENT			65.5
Cost Factor			\$2,529
SERVICE COST = Computed Enrollment * Cost Factor			\$165,650

OTHER RETIREMENT BENEFITS - LIFE INSURANCE

The 1998 cost factor for FEGLI is the same as in 1997, that is, *.02 percent of basic pay*. You would use this cost factor to determine your imputed financing cost.

ILLUSTRATION: CALCULATION OF IMPUTED FINANCING FOR LIFE INSURANCE

You will recall that the employees in Agency XYZ above earned a total basic pay of \$750,000. The agency would determine its imputed financing cost for post-retirement life insurance by multiplying this total basic pay by the cost factor of .02 percent. The cost would be \$150 [$\$750,000 * .0002$].

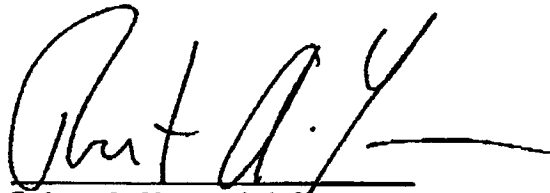
ASSURANCE FOR AUDITORS

The cost factors (service costs) for regular CSRS and FERS coverage were disclosed in the footnotes accompanying the 1997 Retirement Program financial statements. The financial statements were audited by the independent public accounting firm of KPMG Peat

Marwick (KPMG), which issued an unqualified opinion on them. As the cost factors for "regular" CSRS and FERS employees (the vast majority) did not change for 1998, we believe your auditors can rely upon their validity.

INQUIRIES

If you have any questions about the cost factors or the manner in which they were computed, please contact the Financial Policy Staff on 202-606-0606 or email us at finance@opm.gov. If your questions concern the accounting entries in Attachment C, they should be referred to the Financial Management Service on 202-874-6308.

A handwritten signature in black ink, appearing to read "Robert A. Yuran", is written over a horizontal line.

Robert A. Yuran, Chief
Financial Policy Staff/
Retirement and Insurance Service

Attachments (3)

Attachment A

COST FACTORS - CSRS

CATEGORY	1998 COST FACTOR (%)
Regular	24.2
Regular offset²	19.3
Law enforcement officers	40.0
Law enforcement officers - offset²	36.2
Air traffic controllers	31.9
Air traffic controllers - offset²	28.2
Members of Congress	29.3
Members of Congress - offset²	27.0
Congressional employees	32.5
Congressional employees - offset²	27.8

²

Offset employees contribute a percentage of basic pay equal to the full CSRS contribution rate for their category of coverage minus the OASDI tax rate. When total basic pay reaches the Social Security maximum taxable wage, the withholding rate reverts to the full CSRS withholding rate.

Attachment B**COST FACTORS - FERS**

CATEGORY	FERS COST FACTOR (%)
Regular	11.5
Law enforcement officers	24.6
Air traffic controllers	23.1
Members of Congress	16.5
Congressional employees	16.7
Military reserve technicians	11.9

Attachment C

PENSION COST ENTRIES*[Provided by the Financial Management Service]***SCENARIO**

An agency has one employee, who makes \$26,000 per year of basic pay or \$1,000 per pay period. Since he is a "regular" CSRS employee, he contributes 7% of his salary to the Civil Service Retirement and Disability Fund and the agency contributes 8.51%. For the sake of simplicity, the only deduction made from the employee's salary is his contributions to the CSRS. Entries to record payroll expense and the employer's portion of pension expense for contributions are made biweekly.

ACCRUAL ENTRY

Biweekly entries to record accrued payroll and contributions are, as follows (entries are coded as "N" or "G" for elimination purposes on the Consolidated Financial Statements):

6100N Operating/Program Expense (payroll)	1,000	
6400G Benefit Program Expense (6100G may also be used)	85	
2210N Accrued Funded Payroll & Benefits (employee pay, net)		930
2210N Accrued Funded Payroll & Benefits (employee contribution)		70
2210G Accrued Funded Payroll & Benefits (employer contribution)		85

CASH ENTRY

When the employee is paid, the entries are as follows:

2210N Accrued Funded Payroll & Benefits (employee pay, net)	930	
2210N Accrued Funded Payroll & Benefits (employee contribution)	70	
2210G Accrued Funded Payroll & Benefits (employer contribution)	85	
1010 Fund Balance with Treasury		1,085

-- and, if paid from an appropriation --

3100 Unexpended Appropriations	1,085	
5700 Appropriations Used		1,085

Note: If the fiscal year-end falls in the middle of a pay period, an expense for the closing fiscal year must be accrued. This accrual must be reversed at the beginning of the new year.

IMPUTED FINANCING ENTRY

At fiscal year-end, the entry to record cost that will be covered by imputed financing is calculated. \$6,292 (24.2% of \$26,000) is the service cost of CSRS for this year. Employees have contributed 7% or \$1,820 for the year and the agency has contributed another 8.51% or \$2,213. \$2,259 [\$6,292 - \$1,820 - \$2,213] of additional cost will be "financed" by an imputed financing source.

For FY 1998 reporting, the SGL Board implemented an Imputed Financing Sources account. The entry will be:

6400G Benefit Program Expense	2,259	
- or -		
6100G Operating Expenses/Program Costs		
5780 Imputed Financing Sources ("G" by definition)		2,259

For FY 1999 reporting, the SGL Board has voted to implement an "Imputed Cost" account and delete account 6400. The entry will be:

6730 Imputed Cost ("G" by definition)	2,259	
5780 Imputed Financing Sources ("G" by definition)		2,259

Base Salary By Bureau and Retirement Plan

Attachment B

Ret Code:	Bureau	1		CSRS		6		CSRS Special (Law Enforcement)		C		CSRS + FICA (CSRS Offset)		E		CSRS + FICA (Law Enforcement)		K	
		Count	Amount	Count	Amount	Count	Amount	Count	Amount	Count	Amount	Count	Amount	Count	Amount	Count	Amount	Count	Amount
IN 01	OS	385	25,483,257	5	291,391	53	2,892,537	1	48,265	392									
IN 21	SOL	128	9,276,089	11	577,404	240													
IN 24	OIG	103	6,571,293	3	1,293,398	92													
IN 05	BLM	4,116	195,381,254	214	9,545,075	324	12,181,379	45	1,630,742	4,027									
IN 06	BIA	3,472	112,374,604	69	3,050,118	587	16,583,084	11	374,808	5,633									
IN 07	BOR	2,675	113,907,909	7	254,468	247	8,304,913			2,903									
IN 08	GS	4,144	233,521,478	239	10,023,854					5,050									
IN 10	NPS	4,760	196,063,098	452	20,044,743	577	19,454,932	49	1,897,519	9,462									
IN 15	FWS	2,359	112,872,235	146	8,239,546	209	7,949,280	5	237,645	4,740									
IN 22	OSM	383	23,331,309	37	1,883,155					220									
IN 23	MMS	891	52,877,351	70	2,921,564					776									
Total		23,416	1,081,659,876	911	42,718,739	2,357	82,869,863	111	4,188,979	33,535									

Gross Rate:
Agency Rate:
Employee Rate:
Net Rate:

24.20%
-7.00%
-7.00%
10.20%

40.00%
-7.50%
-7.50%
25.00%

19.30%
-7.00%
-0.80%
11.50%

36.20%
-7.50%
-1.30%
27.40%

Base Salary By Bureau and Retirement Plan

Attachment B

Ret Code:	Bureau	FERS + FICA		M	FERS + FICA (Law Enforcement)		2		FICA		4		None		5	
		Amount		Count	Amount		Count		Amount		Count		Amount		Count	
IN 01	OS	21,132,465		3	142,870		13		206,023							
IN 21	SOL	14,617,222					2		25,095							
IN 24	OIG	4,446,785		21	1,112,985		7		130,557							
IN 05	BLM	130,388,589		552	16,078,168		766		14,196,748		22		961,061			
IN 06	BIA	131,406,500		246	7,865,946		1,105		16,014,443		19		434,118			
IN 07	BOR	86,796,101		2	51,936		209		2,717,595		7		51,840			
IN 08	GS	195,813,599					934		18,658,163		33		2,065,921		1	
IN 10	NPS	259,636,353		1,387	48,460,466		3,857		69,913,621		16		512,515		215	
IN 15	FWS	148,659,150		190	7,108,344		831		13,042,691		7		383,625			
IN 22	OSM	10,497,169					4		89,639							
IN 23	MMS	34,121,929					21		353,367							
Total		1,037,515,863		2,401	80,820,715		7,749		135,347,943		104		4,409,080		216	

Gross Rate:	11.50%	24.60%	Neither FERS
Agency Rate:	-10.60%	-23.30%	nor CSRS
Employee Rate:	-0.80%	-1.30%	
Net Rate:	0.10%	0.00%	
			0.00%

Base Salary By Bureau and Retirement Plan

Ret Code:		Other		7		Re-Hired		Total (1)	
		DC Park Pol		Count		Annuitants		Count	
Bureau		Amount				Amount		Amount	
IN 01	OS							852	50,196,808
IN 21	SOL							381	24,495,811
IN 24	OIG							244	13,652,779
IN 05	BLM							10,066	380,363,016
IN 06	BIA			1		39,338		11,143	288,142,959
IN 07	BOR							6,050	212,084,761
IN 08	GS		30,257					10,401	460,113,272
IN 10	NPS		11,324,248	3		68,351		20,778	627,375,846
IN 15	FWS							8,487	298,492,517
IN 22	OSM							644	35,801,272
IN 23	MMS							1,758	90,274,211
Total		11,354,505		4		107,689		70,804	2,480,993,253

Gross Rate:	Neither FERS	Neither FERS
Agency Rate:	nor CSRS	nor CSRS
Employee Rate:	0.00%	0.00%
Net Rate:		

(1) The total reflects base pay only, and will differ from bureau total salary due to awards, bonuses, etc.

**Average Number of Employees by Bureau
And Estimated Imputed Retirement Health Benefit Cost**

Attachment C

Bureau	# of Employees			Weighted Average*	Rate per Employee	Est. Imputed Retirement Health Cost
	10/1/97	3/31/98	9/30/98			
IN 01	OAS/OS	835	829	846	834.75	
IN 01 / 21	SOL	371	380	373	376.00	
IN 24	OIG	252	243	244	245.50	
IN 05	BLM	10,807	9,773	10,712	10,266.25	
IN 06	BIA	11,550	11,181	11,242	11,288.50	
IN 07	BOR	5,948	5,901	6,066	5,954.00	
IN 08	GS	10,687	10,641	10,474	10,610.75	
IN 10	NPS	21,839	19,812	22,681	21,036.00	
IN 15	FWS	8,041	7,923	8,571	8,114.50	
IN 22	OSM	632	642	650	641.50	
IN 23	MMS	1,709	1,741	1,760	1,737.75	
Total		72,671	69,066	73,619	# 71,105.50	\$ 179,825,810

* computed as: (Oct-97 * 1) + (Mar-98 * 2) + (Sep-98 * 1) / 4
data as of pay periods 9721, 9807 and 9820

**Base Pay for Employees with FEGLI
And Estimated Imputed Retirement Life Insurance Cost**

Attachment D

Bureau	Count	Amount	Rate	Est. Imputed Retirement Life Insurance Cost
IN 01	OS	852 \$ 50,196,808	0.02%	\$ 10,039
IN 21	SOL	381 24,495,811	0.02%	4,899
IN 24	OIG	244 13,652,779	0.02%	2,731
IN 05	BLM	10,068 380,363,016	0.02%	76,073
IN 06	BIA	11,143 288,142,959	0.02%	57,629
IN 07	BOR	6,050 212,084,761	0.02%	42,417
IN 08	GS	10,401 460,113,272	0.02%	92,023
IN 10	NPS	20,778 627,375,846	0.02%	125,475
IN 15	FWS	8,487 298,492,517	0.02%	59,699
IN 22	OSM	644 35,801,272	0.02%	7,160
IN 23	MMS	1,758 90,274,211	0.02%	18,055
Total	70,806	\$ 2,480,993,253	\$	496,199

as of pay period 9823